

## Message Text

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PAGE 01 STATE 158585  
ORIGIN SS-25

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APPROVED BY EB:PHBOEKER  
TREASURY - DSYVRUD  
EUR - GVEST  
S/S - SGOLDSMITH  
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O 080133Z JUL 77  
FM SECSTATE WASHDC  
TO AMEMBASSY LISBON IMMEDIATE

C O N F I D E N T I A L STATE 158585

EXDIS

E.O. 11652: GDS

TAGS: EFIN, PO

SUBJECT: FINANCIAL ASSISTANCE FOR PORTUGAL

REF : LISBON 5177

1. THE U.S. APPRECIATES THE EXTREME DIFFICULTIES POSED FOR THE GOP BY EXCEPTIONAL CAPITAL OUTFLOWS AND THE RESULTING LIQUIDITY PROBLEM. WE BELIEVE, HOWEVER, THAT THE CURRENT SITUATION REQUIRES FUNDAMENTAL ECONOMIC ADJUSTMENTS AND CAN ONLY BE RESOLVED BY STRONG GOP ACTION. WE WILL TRY TO BE HELPFUL BY SUPPORTING, TO THE EXTENT WE CAN, A GOP PROGRAM TO REVERSE THESE CAPITAL OUTFLOWS.

2. A FED SWAP WOULD NOT BE AVAILABLE TO FINANCE CURRENT LEVEL OF CAPITAL OUTFLOWS AS SUGGESTED IN REFTEL. WE HAVE CONSULTED THE FED ON POSSIBILITIES OF A SWAP ARRANGEMENT.  
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PAGE 02 STATE 158585

MENT FOR PORTUGAL. THE FED INDICATES THAT AS IN THE PAST THERE ARE FUNDAMENTAL IMPEDIMENTS TO ARRANGING A CURRENCY SWAP DRAWING BY PORTUGAL.

3. WE BELIEVE THE GOP SHOULD PROMPTLY CONSULT THE IMF ON MEASURES TO REVERSE THE CAPITAL OUTFLOW SITUATION AND WE WOULD RECOMMEND THAT THE IMF BE INVITED BACK TO PORTUGAL

SOONEST. GOP MIGHT ALSO CONSIDER USING THIS OPPORTUNITY

TO ACCELERATE NEGOTIATIONS FOR ITS SECOND CREDIT TRANCHE  
DRAWING, SO THAT IMF CREDIT WOULD BE AVAILABLE TO BACK  
A GOP PROGRAM TO REVERSE CAPITAL OUTFLOW.

4. FYI: WE DOUBT THAT THE PRESENT LIQUIDITY PROBLEM  
CAN BE OVERCOME WITHOUT A FUNDAMENTAL EXCHANGE RATE  
ADJUSTMENT. THE RECENT SURGE IN CAPITAL OUTFLOWS SEEMS  
TO BE PRIMARILY SPECULATIVE -- IN ANTICIPATION OF A  
DEVALUATION. ALTHOUGH THE GOVERNMENT PROGRAM CURRENTLY  
BEFORE THE NATIONAL ASSEMBLY MAY GO FAR TO BUILD CONFIDENCE  
IN THE ECONOMY THE PROPOSED MEASURES ARE UNLIKELY  
TO DISPEL EXPECTATIONS OF A DEVALUATION. IT IS ALSO  
UNLIKELY THAT THE GOP CAN AT A REASONABLE COST OUTLAST THE  
SPECULATIVE TREND BY FINANCING THE CAPITAL OUTFLOW. IT  
WOULD NOT BE IN PORTUGAL'S INTEREST TO INCUR A MAJOR NEW  
SHORT-TERM LIABILITY FOR THE PURPOSE OF DELAYING AN  
INEVITABLE DEVALUATION. WE BELIEVE IT IS ESSENTIAL THAT  
GOP ACT QUICKLY TO ADJUST THE EXCHANGE RATE AND TAKE  
IMPORTANT SUPPORTING MEASURES ON INTEREST RATES, MONETARY  
POLICY AND PRICE POLICY AS WELL AS IMPLEMENT THE BROADER  
REFORMS TO CONTINUE TO BUILD OVERALL CONFIDENCE. END FYI.

5. THE U.S. IS SYMPATHETIC TO CURRENT FINANCIAL  
DIFFICULTIES AND WE WILL TRY TO BE SUPPORTIVE OF A NEW  
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PAGE 03 STATE 158585

PORTUGUESE PROGRAM TO RELIEVE THE LIQUIDITY PROBLEM. WE  
ARE PRESENTLY WORKING VIGOROUSLY TO SECURE THE ADDITIONAL  
28.5 MILLION DOLLARS PL 480/CCC PROGRAM. ANNOUNCEMENT OF  
THE PROGRAM COULD BE TIMED TO AFFORD MAXIMUM SUPPORT OF  
GOP'S NEW PROGRAM. IN THIS CONTEXT, WE WOULD ALSO HAVE  
A STRONG BASIS FOR APPROACHING OTHER PARTICIPANTS IN THE  
MEDIUM-TERM LENDING ARRANGEMENT TO REQUEST THAT THEY  
ACCELERATE FINALIZING THEIR BILATERAL LOAN AGREEMENTS  
AND DISBURSING THEIR LOANS. VANCE

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## Message Attributes

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**Channel Indicators:** n/a  
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**Decaption Note:** 25 YEAR REVIEW  
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**Disposition Approved on Date:**  
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**Disposition Date:** 22 May 2009  
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**TAGS:** EFIN, EAID, PO  
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